

Message Text

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ORIGIN OPIC-02

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TO AMCONSUL SALVADOR PRIORITY

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E.O. 11652: N/A

TAGS: EINV

SUBJECT: WAR RISK REINSURANCE

FROM: OPIC

ATTN: MARSHALL T. MAYS (OPIC) FROM ZOLA

1. PURSUANT TO OUR NEGOTIATIONS WITH PRU-RE CONCERNING
THE TERMS OF THE PROPOSED WAR RISK REINSURANCE TREATY, WE
MADE TWO ADDITIONAL PROPOSALS TO THEM, OUTLINED AS OPTIONS
1 AND 2.

TERMS	OPTION 1	OPTION 2
POOL LIMITS	\$12.5/25 MILLION	\$20/40 MILLION
EXCESS COVER RATE	35 PCT.	30 PCT
MANAGEMENT FEE	12 PCT	12 PCT
EXCLUSIONS DEDUCTION	5 PCT	5 PCT

(NUCLEAR & US MILITARY)

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OTHER CONDITIONS PREMIUM ONEXPO- NONE

--- SURE IN EXCESS
--- OF \$150 MILL PER
--- COUNTRY TO BE
--- EXCLUDED

PRU-RE MADE TWO COUNTER-PROPOSALS, SET FORTH AS OPTIONS
3 AND 4.

TERMS	OPTION 3	OPTION 4
POOL LIMITS	\$12.5/25 MILLION	\$15/30 MILLION
EXCESS COVER RATE	35 PCT	30 PCT
MANAGEMENT FEE	11.5 PCT	11.5 PCT
EXCLUSIONS REDUCTION	2 PCT	2 PCT
OTHER CONDITIONS	NONE	NONE

PRU-RE INDICATED THEY WOULD BE WILLING TO ASSUME A NET
LINE IN OPTION 3 OF \$1.25 MILLION PART OF \$3.75 MILLION
PART OF \$12.5 MILLION AND A NET LINE IN OPTION 4 OF \$1
MILLION PART OF \$4.5 MILLION PART OF \$15 MILLION.

WE BELIEVE THE FINAL TERMS WE SHOULD OFFER THEM ARE THOSE
IN OPTION 5.

TERMS	OPTION 5
POOL LIMITS	\$12.5/25 MILLION
EXCESS COVER FEE	35 PCT
MANAGEMENT FEE	11.5 PCT
EXCLUSIONS REDUCTION	3.5 PCT
OTHER CONDITIONS	PREMIUM ON EXPOSURE IN EXCESS OF
---	\$200 MILLION TO BE EXCLUDED FROM
---	POOL

WE BELIEVE OPTION 5 REPRESENTS REASONABLE AND EQUITABLE
TERMS FOR THE FOLLOWING REASONS:

A. THE TERMS ARE COMPARABLE TO THOSE OFFERED THE RECIPRO-
CAL WITH RESPECT TO POOL LIMITS AND EXCESS COVER.

B. THE MANAGEMENT FEE IS 11.5 COMPARED TO 12 FOR THE
RECIPROCAL AND OUR ACTUAL EXPENSES ARE 11.4 PCT.
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C. OPIC RECEIVES 3.5 OF PREMIUM FOR NUCLEAR AND US MILI-
TARY EXCLUSION WHICH WE BELIEVE IS FAIR AND REPRESENTS
THE AVERAGE OF THEIR FIRST OFFER OF 2 AND OURS OF 5 PCT.

D. ALL PREMIUMS ON EXPOSURES IN EXCESS OF \$200 MILLION
FLOW TO OPIC (\$1.32 MILLION) WHICH MAKES THE RISK/REWARD
RATIO THE SAME AS THE GROUP'S.

E. BASED ON OUR LOSS EXPERIENCE AND OPIC'S DECISION AS TO POOL LIMITS FOR THE RECIPROCAL, THESE POOL LIMITS CONFIRM OUR PRIOR JUDGMENT.

F. IT WOULD BE ECONOMICALLY AND POLITICALLY ADVANTAGEOUS FOR OPIC TO HAVE CREATED A LARGER PERCENTAGE OF PRIVATE PARTICIPATION IN A POOL THIS SIZE THAN A SMALLER PRIVATE PARTICIPATION IN A LARGER POOL.

G. OPTION 5 WOULD PROVIDE REINSURERS WITH A RISK/REWARD RATIO (EXPOSURE/NET PREMIUM) OF 2.43. THE RISK/REWARD FIGURE FOR THE GROUP'S FISCAL 1976 IS EXPECTED TO BE 2.46. THE SIGNIFICANCE OF THIS NUMBER IS THAT THE PRIVATE SECTOR CAN EXPERIENCE A ONE-COUNTRY WIPE-OUT EVERY THREE YEARS AND STILL BE PROFITABLE.

H. OPTION 5'S TERMS ARE SUPERIOR TO THE EARLIER A.I.G. TREATY FOR A VARIETY OF REASONS NOT THE LEAST OF WHICH IS THERE IS NO SELECTIVITY OF THE PORTFOLIO BY RATE GROUP.

WE BELIEVE OPTION 5 REPRESENTS THE OUTER LIMITS OF WHAT MAY BE ACCEPTABLE TO PRU-RE; WE ARE CONVINCED OF ITS REASONABLENESS; AND WE WOULD LIKE TO PRESENT OPTION 5 TO THE PRU-RE PRIOR TO THE AUG 3RD BOARD MEETING IF IT MEETS WITH YOUR APPROVAL.

2. WE SHALL ATTEMPT TO CALL YOU ON MONDAY IN LATER A.M. TO DISCUSS THIS MATTER WITH YOU. IN THE EVENT OPTION 5 MEETS WITH YOUR APPROVAL AND YOU ARE UNAVAILABLE ON THE TELEPHONE, PLEASE CABLE YOUR CONCURRENCE. ROBINSON

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